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FELETTI AND THE U.S.

CRISTINA SIRIANNI

MIM 665 GRADUATE PROJECT

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INTRODUCTION

Everytime a company decides to export its products abroad, it has to be very careful and analyze all the pros and cons involved in exporting. Companies need to know the economic situation of both countries, (the one in which the company originates from, and the country to which the company wants to export to), in order to export the product to where there is a market and a favorable economic climate.

The study focuses its attention to a specific Italian company called Feletti, which is trying to tap into the American chocolate market. The question that this study is trying to answer is the following: Is it possible for the Italian chocolate company, Feletti, to reach the Boca Raton market in Florida, and be successful?

In order to answer this question I will focus on some other issues which are important to understand in order to answer the main question.

The primary issues that I will focus on are:

1. Understanding the Italian and U.S. economies in order to see whether there is a favorable economic climate for the company to enter the U.S. market.
2. I will give a brief history of the company explaining all the different products and give some general information on how Feletti is doing in the Italian market.
3. What companies need to know in order to make an informed export decision.
4. Rules and regulations on importing chocolate into the U.S. from Italy.
5. I will describe how Feletti is doing in the U.S. market.
6. I will then focus on the main issue, which is: Is Boca Raton a lucrative market for Feletti?
7. If Boca Raton appears to be a good market for Feletti's products, I will develop a marketing strategy for the company to enter the market.

I believe this study has two main purposes. First, it will help Feletti determine whether Boca Raton can be a potentially good market for its products; secondly, this study will help any company which intends to export its products to other countries, learn what it needs to know to make an informed exporting decision.

LITERATURE REVIEW

American Chamber of Commerce in Italy. Directory 1995.

In any export transaction it is very important to understand the economies of the two countries which are involved in the transaction. This book was really useful in understanding the American and the Italian economies in 1994 and 1995. There was also a very interesting article about trade between the U.S. and Italy. Most of the information in Chapter 1 was gathered from this book.

Berndt, John E. Bowles, B. 1995. Breaking into the trade game. U.S. Small Business Administration and AT&T.

This book was very informative in developing Chapter 3, Making the Export Decision. The authors explain the advantages and disadvantages involved in any exporting decision. Only after weighing the pros and cons of the exporting transaction, can companies decide whether it is worth exporting their products. Before making the decision to enter the Boca Raton market, Feletti has to analyze all the advantages and disadvantages involved in the decision in order to be successful in the long-run.

Fox, H. 1995. Sector survey, The top 10: Boxed chocolates. Marketing, April, 18.

If Feletti wants to enter the Boca Raton market, the company needs to know who the major competitors are. According to this article, a quick shuffle has pushed Ferrero Roche Chocolates to the top slot, sending Cadbury's Roses to 3rd, with Cadbury's Milk Tray sandwiched between the two. I thought the article was really useful because a lot of Feletti's chocolates are sold in boxes, so the company needs to know who the

competitors are and what they are doing in order to remain competitive in the marketplace.

Hammel, F. 1995. Consumer Expenditures Study: Candy and Chocolate. Supermarket Business, September, 138-143.

According to the 44th Annual Consumer Expenditures Study, making candy and chocolates more visible is enough to improve sales. Manufacturers say that while promotional efforts during the major holidays increase candy and chocolate sales significantly, supermarket operators should have more promotions between the holidays as well. Much of the sales success of candy and chocolates is the result of short-term promotions, where holiday colors are used in packaging. I think that Feletti should take into consideration all of this information in order to be successful in the Boca Raton market.

Hoggan, K. 1995. Ferrero Chocs Clever. Marketing, April, 5-10.

This article explains how companies introduce new products into new markets. I think this information would be very useful to Feletti, as the company is trying to introduce a new product to a new market. The example in the article is on Ferrero. This family-owned Italian company's key to new product development is technological innovation that makes its products difficult to copy, followed by testing and retesting before a commitment is made to a launch.

Jain, Subhash C. 1991. International Pricing Strategy. International Marketing Management, 529-560.

This material was very important in developing a good marketing strategy to enter the Boca Raton market. The pricing decision ultimately affects an organization's ability to stay in the market, which is why Feletti needs to develop a very smart pricing strategy to enter the Boca Raton market and remain successful over the years.

Jain, Subhash C. 1991. International Channels of Distribution. International Marketing Management, 564-606.

This Chapter in the book (International Channels of Distribution), was very important in knowing what channels of distributions were available in other countries. From this chapter I got a lot of information on the advantages and disadvantages of the different channels of distribution available in the United States. I was then able to suggest a certain type of channel of distribution that would best fit what Feletti is trying to accomplish in the Boca Raton market.

Lammers, H. 1995. The effect of free sample on immediate consumer purchase. Journal of Consumer Marketing, February, 31-37.

The practice of giving out food samples has become traditionally associated with new product and store introductions. A field experiment was done to determine the effectiveness of sampling on sales within a store whose reputation has already been fairly well-established. After 300 customers were observed over a 3-day period, it was found that chocolate samples did have a positive impact on immediate sales of the product. This article helped me a lot in developing a marketing strategy for Feletti in entering the Boca Raton market.

CHAPTER 1
UNDERSTANDING THE ITALIAN AND U.S.
ECONOMIES

A. THE ITALIAN ECONOMY IN 1994 AND 1995

Italy is the world's fifth or sixth largest economy. In 1994, it came out of a period of stagnation and recession that began in 1991.

Like the other industrialized economies of the European Union and OECD, Italy too increased its gross domestic product significantly, rising by slightly more than 2%.

The main reason for the acceleration of the economy in 1994 was undoubtedly the strong foreign demand.

Italian enterprises were able to take advantage of this factor more than their counterparts in other countries, because of the effects of the devaluation of the Lira in September 1992 and its persistent weakness until the end of 1994 (on an average, the Lira devalued by more than 30% compared to the other major currencies).

In 1994, Italian industries increased their output and the level of utilization of production capacity significantly. Although the average increase was quite high, it should be noted that the main beneficiaries of the positive economic situation were companies that had a strong orientation towards exporting. Businesses that mainly concentrated on the home market have continued to do poorly.

Imbalances between the various geographical areas are evident, however, this has always been a structural feature of the Italian economy. The northeastern regions (Lombardy, where Feletti is located and Emilia, Tuscany) have been very dynamic, but other regions, such as those of the northwest and the regions of Rome (Latium) and Ancona (Marches), have benefited somewhat less from the recovery. This explains why unemployment has not yet begun to drop, despite the recovery of the economy. In Italy, unemployment is particularly severe due to the regional disparities. The northeast has created some new jobs, but in the south unemployment rates are often above 20%. The

national unemployment rate, thus, remains above 12%, and a partial recovery from this difficult situation is expected only from 1996 on.

Privatization is one of the greatest challenges facing the Italian economy and its society today. It's not an easy problem to solve, because the economy and the whole industrial structure has been influenced for more than half a century by a strong and intrusive presence of the State, which in the last few decades, was excessively influenced by political parties; these various groups heavily distorted the normal workings of the marketplace and had serious consequences in terms of violations of the law.

All this can largely be attributed to history. At present the Italian society is demonstrating its strong desire to break the protectionist practices that prevailed for many decades (American Chamber of Commerce in Italy, p.25). The objective, which is now shared by the majority of Italians, is a progressive and rapid privatization of public enterprises.

Deregulation is a priority in Italy in order to free the economy from a large number of unjustified constraints and to restore full efficiency to industries and services.

The first privatization project that was actually completed in Italy involved the food company Italgel, which was sold to a Swiss buyer (the Nestle group). Later, in 1994, two large banks in which the State had an interest, Banca Commerciale Italiana and Credito Italiano, were privatized, while a third major bank, Istituto Mobiliare Italiano (IMI), was sold only in part. The last privatization in 1994 was GS-Autogrill, again in the food sector. It was sold to a consortium of private businessmen led by the Benetton group.

On the whole, 1994 was a year of recovery for Italy with some obvious

advantages - the industrial recovery (however unbalanced), the large trade surplus and the drop in inflation. The negative consequences were - the public finance deficit, unemployment and the weak internal demand. The weak internal demand is one of the reasons why Feletti decided to study if the American market could be lucrative for its chocolate products.

THE U.S. ECONOMY IN 1994 AND 1995

The United States economy has grown faster than any of those in the industrialized countries (American Chamber of Commerce in Italy p.28). GDP growth in 1994 has been 3.8%, while in Italy, Germany, France and Japan it has grown by less than 2%, and only in the U.K. has there been an expansion of 3.3%. Such a rapid growth has at the same time determined acute fears or a possible upturn of inflation, thus, causing a very precautionary approach of the Federal Reserve, which in 1994 adopted a restrictive monetary policy, based primarily on a moderate increase in interest rates.

Domestic demand has been the most relevant component of the U.S. growth, but the strong push has come from private consumption and investments, whereas collective consumption has been weak (American Chamber of Commerce in Italy, p.28). The strong increase in the consumption demand has stimulated corporate investments that have grown at an annual rate of 12% in 1994, after a 9% increase in 1993.

As the U.S. started their recovery before other industrialized countries, import demand has been stronger than exports of goods and services, even if one takes into account the weakness of the Dollar against some of the major currencies like the Japanese Yen and the German Deutsche Mark. This had the very serious consequence

of a trade deficit close to 180 billion Dollars in 1994.

All major industrialized countries, excluding the U.S., expect a higher growth rate than that in 1994, which will lead to a stronger demand for imports than in 1993. This coupled with the likely weakness of the U.S. Dollar in 1995, could benefit U.S. exports which are expected to grow by more than 10%.

U.S.- ITALIAN TRADE

Trade between Italy and United States is getting increasingly important for both countries, despite the strong realignment of the flows in favor of Italy in the last few years.

Italy is the seventeen largest market in the world for U.S. exports, but in Italy the U.S. ranked fifth (5.3%), after Germany (19.3%), France (13.6%), United Kingdom (5.8%), and the Netherlands (5.7%).

Trade between the two countries is characterized by a systematic surplus in favor of Italy, a surplus that has grown considerably since 1992, following the end of the recession which slowed down the demand for imports from Italy and, since September 1992, because of the devaluation of the Lira against the Dollar (American Chamber of Commerce, p.26).

In 1993 Italian exports to the United States amounted to more than 13 billion Dollars and rose to 13.9 billion in 1994, and 15.4 billion Dollars in 1995. A further substantial increase has been forecasted for 1996, to 16.5 billion Dollars. Regarding U.S. exports to Italy, there was a considerable drop between 1992 and 1993 from 8.7% to 7.8% billion Dollars (American Chamber of Commerce in Italy, p. 26).

The product profile of trade between Italy and the United States is very different,

Italian exports are concentrated above all, in sectors where Italy enjoys a strong comparative advantage and often occupies a position of leadership on a world scale. These sectors are almost always low technology areas, such as shoes, jewelry, furniture, clothing, marble and wine, in which the quality, taste and design component is strong. However, a number of sectors with higher product or process technology contents, such as machinery or ceramic tiles, are also very important. For many of these sectors 1994 has been a very good year, after a prolonged stagnation in the last two years. Compared to 1993, in 1994 Italian exports to the U.S. have increased at the rate of 15.5% in the textiles, apparels and shoes sectors. Leather goods exports have also experienced a strong increase in 1994, close to 24%, and the relative market share in the U.S. is now around 6%. Finally, two other important sectors have increased their penetration into the U.S. market: agricultural machines have experienced a rate of increase close to 15%, and Italian wine has enjoyed an increase of more than 40% compared to 1993 (American Chamber of Commerce in Italy, p.27).

Regarding U.S. exports, they are totally complementary with the flow in the other way, as they consist mainly of goods with a high technological innovative content, on the one hand, or basic raw materials, on the other. This includes airplane components and spare parts, medical equipment, measurement and control equipment, telecommunications equipment, computers, automobiles and accessories (American Chamber of Commerce in Italy, p. 27).

On the whole, trade between Italy and United States is characterized by large areas in which the goods and services are complementary, with strong advantages for both countries. The United States appears to be a very good market for Feletti's products for the reasons that I have mentioned above. Food, is an area where Italy has

a comparative advantage over the United States, regarding quality and taste. I think this advantage can be used by Feletti in order to be successful in the U.S.

CHAPTER 2

HISTORY OF THE COMPANY (FELETTI)

FELETTI'S HISTORY

In 1800 the town of Torino got renowned as the "Chocolate Center". The Masters Confectioners started the production of flavored chocolate drops and the "Givu" (the ancient name of "Gianduiotto", the most renowned Italian chocolate). The fame was such that even the Swiss came to Torino to learn from the Masters.

Only after 1880, a real industrial production started and in this enthusiastic climate a certain Carlo Birocchetto opened his laboratory. Eight years later he moved his business to the "Galleria Umberto Primo," the most elegant place in Torino. Soon his name became famous in Europe. He took part in the Food Expo in Paris in 1903 and in London in 1904, securing awards and gold medals.

At the end of the first World War, the company was bought by Mr. Feletti. Even though ownership changed in subsequent years, his name stayed and stays on, as a trademark and the company's name.

At the end of the second World War, the new factory built in 1932, was completely destroyed. Everything had to be started again. The results from the efforts of maintaining the high level of quality, and the continuous increase in production, were such, that it was necessary to build a larger factory. In 1968 the new factory in Pont Saint - Martin (Aosta Valley) was inaugurated (see Figure 1, p.17).

Now more than a 100 years has passed from the opening of the first laboratory, and the Masters Confectioners are still there to create masterpieces (see Figure 2, p.18 and Figure 3, p.19). The old "Givu" chocolate, which changed its name to "Gianduiotto" (see Figure 4, p.20), still maintains that special characteristic smooth delicious taste.

CHOCOLATES

Feletti has been producing chocolates and candies for more than a 100 years and its name is distinctive with the highest quality in Italian confectionery

Premium quality chocolates are still one of the least expensive pleasures.

Furthermore, the trend of the market in upscale chocolates, finds Feletti at the first place for the elegance of the company's boxed confections (see Figures 5,6,7,8, p.21, 22, 23, 24), with such a wide variety of flavors that choice-making is difficult , or for the refined dragees and pralines unwrapped for the confectionery shops, or for the plain milk or dark chocolates, and not to forget the bars (20 different types).

For ice-cream makers and pastry shops, Feletti has chocolate coatings and pastes and cocoa in a powder form. Feletti uses cocoa coming from three different origins: South America, Africa and Asia. This allows it to obtain from each, the best organoleptic characteristics.

GENERAL INFORMATION

Feletti's turn-over in 1993 was 25 billion Liras, in 1994 it was 26 billion and in 1995 it is estimated to be 29 billion Liras. Production is roughly 1.1 million tons. There are 200 workers (more with the seasonal workers) and 130 agents cover the Italian market. Considering the constant development, the company has recently invested in new production technology and in the plant physical structure.

The way Feletti deals with the Italian market is the following - the main events that chocolate companies are concerned with because most of their sales take place during this time of the year are:

1. Christmas

2. Easter

3. Special events such as St. Valentine, Father's and Mother's Day.

The high sales of chocolate runs from October through February. After February, sales slow down until Easter in April. After Easter, there is another slow down until Christmas. From what I just said it seems that Feletti works only certain periods of the year. Actually the company stays open all year round for many different reasons.

For example let's talk about Christmas. In April 1996 the Christmas campaign starts. This means that the 130 agents start taking orders from the catalogs or directly. Then they send the orders to the laboratory and the production is already under way at the end of May. Christmas orders are delivered in September 1996 for December 1996. After Christmas orders are delivered, the Easter campaign starts (September 1996). Along with the Easter campaign, special events (St. Valentine, Father's and Mother's Day) are also under way. Easter orders are delivered at the beginning of March.

After Easter, if some Easter eggs are not sold for various reasons, Feletti can take them back. First you have to break each egg, then take the gift that is inside every Easter egg, and have the receipt of the egg's price and weight. There are two ways of getting a refund:

1. Feletti can pay the client immediately (direct refund).
2. Feletti can give a discount on the next Christmas order.

The same process happens with products that expire any time of the year. To get a refund, customers have to go to the shop they bought the product from and ask for it. The shop will give a direct refund to the customer and then it will contact Feletti to ask for a direct refund or for a future discount on the next order.



(FIGURE 1) 17



(FIGURE 2) 18



(FIGURE 3) 19

GIANDUIOTTO AZZURRO



Cod. 05012
Espositore Gianduiotti da g 20 - pz. 48 x 2

(FIGURE 4) 20

AUTOMOBILE



Cioccolatini Finissimi

AUTOMOBILE

Cod. 03140 - Scatola 4 Soggetti Assortiti - g 215 - pz. 8
Cod. 03141 - Scatola 4 Soggetti Assortiti - g 315 - pz. 6

cm. 39
cm. 42

(FIGURE 5) 21



Due soggetti assortiti
Scatola g 120 - cm. 35 x 20
Scatola g 160 - cm. 39 x 23
Scatola g 250 - cm. 42 x 24
Scatola g 360 - cm. 47 x 27

LES FLEURS



Cioccolatini Finissimi



Cod. 03471 - Scatola Les Fleurs - 2 Soggetti Assortiti - g 135 - pz. 10
Cod. 03472 - Scatola Les Fleurs - 2 Soggetti Assortiti - g 215 - pz. 8
Cod. 03473 - Scatola Les Fleurs - 2 Soggetti Assortiti - g 315 - pz. 6
Cod. 03474 - Scatola Les Fleurs - 2 Soggetti Assortiti - g 410 - pz. 4

cm. 35 x
cm. 39 x
cm. 42 x
cm. 47 x



(FIGURE 8) 24

CHAPTER 3
MAKING THE EXPORT DECISION

MAKING THE EXPORT DECISION

Exporting is crucial to Italy's economic health. Increased exports lead to the growth of businesses, and as businesses grow, they create jobs. However, only a small percentage of potential exporters take advantage of these opportunities. It's crucial for Italian businesses to think globally.

Making the export decision requires a careful assessment of the advantages and disadvantages of expanding into new markets. Once the decision to export is made, an international business plan is essential (U.S. Small Business Administration and AT&T, p.3).

Some of the advantages of exporting includes:

- * Enhanced domestic competitiveness
- * Increased sales and profits
- * Securing global market shares
- * Reducing dependency on existing markets
- * Exploiting corporate technology and know-how
- * Stabilizing seasonal market fluctuations
- * Enhancing potentials for corporate expansions
- * Selling excess production capacities
- * Gaining information on foreign competition

There are also some disadvantages to exporting, these include:

- * Developing new promotional materials
- * Subordinate short-term profits to long-term gains
- * Incurring added administrative costs

- * Allocating personnel for travel
- * Waiting longer for payments
- * Modifying the product or packaging
- * Applying for additional financing
- * Obtaining special export licenses

Behind most export success stories is a "Plan." Whether written down formally, or sketched out informally at a meeting by a management team, an international business plan is an essential tool in evaluating all the factors that affects the company's ability to compete internationally (U.S. Small Business Administration and AT&T, p.11).

An international business plan should define the company's:

- * Commitment to international trade
- * Export pricing strategies
- * Reasons for exporting
- * Potential export markets and customers
- * Methods of foreign market entries
- * Exporting costs and projected revenues
- * Export financing alternatives
- * Legal requirements
- * Transportation methods
- * Overseas partnerships and foreign investment capabilities

Some of these points will be analyzed in more details in the subsequent chapters.

CHAPTER 4

HOW TO IMPORT CHOCOLATES TO THE U.S. FROM ITALY

PLANNING AHEAD FOR IMPORT

Importing is the other side of the transaction. In the case of Feletti, the company is exporting to the U.S., therefore someone in America is importing.

As an importer, when the shipment arrives, one has spent ones money and has a shipment of goods instead. One has to clear the shipment through Customs, comply with all the laws, regulations, and tariffs, and sell the product to recover ones money and make a profit.

The importer has a number of costs to cover:

- * The cost of goods
- * Inland Freight
- * Forwarder's fees
- * Loading charges
- * Freight charges
- * Insurance fees

The above costs are just to get the goods to the States. There are additional costs that the importer needs to be aware of:

- * Customs duties
- * Customs Broker's fees
- * Inland freight to the importer's warehouse

In the following section I will describe FDA Procedures that importers need to be aware of in order to import foods, in this particular case chocolate, to the United States.

FDA IMPORTATION PROCEDURES

Any agent or importer of Feletti's products needs to be aware of the following

FDA procedures:

1. The importer or agent needs to file entry documents with U.S. Customs Service within five working days from the date of arrival of the shipment at the port of entry.
 2. FDA is to be notified of an entry of regulated food items through:
 - * Importer's Entry Notice or Land Port Entry Notice.
 - * Copy of the U.S. Custom's Form 7501 "Summary Sheet for Consumption Entry".
 - * Copy of the Commercial Invoice.
 - * Surety to cover potential duties, taxes and penalties.
 3. FDA reviews the Importer's Entry Notice (FDA Form FD 701) to determine whether a physical examination should be conducted.
 - 4A. A decision is made not to collect a sample. FDA sends a, "May Proceed Notice" (FDA Form FD 702) to U.S. Customs and the Importer of record. The shipment is released as far as FDA is concerned.
 - 4B. A decision is made to collect a sample based on:
 - * Nature of the product
 - * FDA priorities
 - * Past history of the commodity
- FDA sends a, "Notice of Sampling" (FDA Form FD 712) to the U.S. Customs and the importer of record. The shipment must be held intact pending further notice. A sample will be collected from the shipment. The importer of record may move the shipment from the dock to another port or warehouse.
5. FDA obtains a physical sample. The sample is sent to an FDA District Laboratory for analysis.

6A. FDA analysis finds the sample to be in compliance with requirements. FDA sends a Release Notice (FDA Form FD 717) to the U.S. Customs and the Importer of record.

6B. FDA analysis determines that the sample “appears to be in violation of the FD&C Act and other related Acts”. FDA sends U.S. Customs and the Importer of record a Notice of Detention and Hearing (FDA Form FD 777) which:

- * Specifies the nature of the violation, and,
- * Gives the Importer of record 10 working days to introduce testimony as to the admissibility of the shipment.

7A. Consignee, true owner, importer of record, or a designated representative responds to the Notice of Detention and Hearing. The response permits the introduction of testimony, either orally or in writing, as to the admissibility of the shipment.

7B. Consignee, true owner, Importer of record, or a designated representative neither responds to the Notice of Detention and Hearing nor requests an extension of the hearing period.

8A. FDA conducts a hearing concerning the admissibility of the product. The hearing is an opportunity to present relevant matters and is confined to the submission of pertinent evidence.

8B. FDA issues a Notice of Refusal of Admission (FDA Form FD 772) to the Importer of record. This is the same person or firm who was sent a Notice of Sampling. All recipients of the Notice of Sampling and the Notice of Detention and hearing are sent a copy of the FDA Form FD 772.

9A. Importer of record presents evidence indicating that the product is in compliance. Certified analytical results of samples, examined by a reliable laboratory and which are within the published guidelines for levels of contaminants and defects in food for human

use, may be presented.

9B. Importer of record submits an Application for Authorization to Recondition or to Perform Other Action (FDA Form FD 766). The form requests permission to try to bring a food that is adulterated or misbranded into compliance by relabeling or other action, or by converting to a non-food use. A detailed method to bring the food into compliance must be given.

9C. FDA receives verification of the exportation or destruction of the shipment from the U.S. Customs. The exportation or destruction of the merchandise listed on the Notice of Refusal of Admission is carried out under the direction of the U.S. Customs.

10A. FDA collects follow-up samples to determine compliance to guidelines.

10B. FDA evaluates the reconditioning procedure proposed by the importer. A bond is required for payment of liquidated damages.

11A. FDA finds that the sample is "in compliance". A Release Notice (FDA Form FD 717) with a Statement "Originally Detained and Now Released" is sent to the U.S. Customs and the importer.

11B. FDA finds that the sample is not in compliance. The importer may either submit an Application for Authorization to Recondition or to Perform Other Action (see 9B), or, FDA will issue a Notice of Refusal of Admission (see 8B).

11C. FDA approves importer's reconditioning procedures. The approved application contains the Statement "Merchandise Should Be Held Intact Pending the Receipt of FDA's Release Notice".

11D. FDA disapproved applicant's reconditioning procedure if past experience shows that the proposed method will not succeed. A second and final request will not be considered unless it contains meaningful changes in the reconditioning operation to

ensure a reasonable chance of success. The applicant is informed on the FDA Form FD 766.

12. Importer completes all reconditioning procedures and advises FDA that the goods are ready for the inspection/sample collection.

13. FDA conducts follow-up inspection/sample collection to determine compliance with the terms of the reconditioning authorization.

14A. FDA analysis finds that the sample is in compliance. A Release Notice (FDA Form FD 717) is sent to the importer and to the U.S. Customs. The charges for FDA supervision are assessed on FDA Form FD 790. Copies are sent to U.S. Customs which is responsible for obtaining total payment including any expenses incurred by their personnel.

14B. FDA analysis finds that the sample is still not in compliance. Charges for FDA supervision are assessed on FDA Form FD 790. Copies are sent to U.S. Customs which is responsible for obtaining total payment including expenses incurred by their personnel.

Importers can speed up food entries by keeping in mind the following advices:

- * Before shipment, the importer should determine whether the product to be imported is legal or not.
- * Have private laboratories examine samples of foods to be imported and certify the analysis of the processor. Although not conclusive, these analyses might serve as an indication of the processor's ability to produce acceptable, legal products.
- * The importer should become acquainted with the FDA's legal requirements, before contracting for shipment.
- * The importer should request assistance from the FDA District Office responsible for

the port of entry.

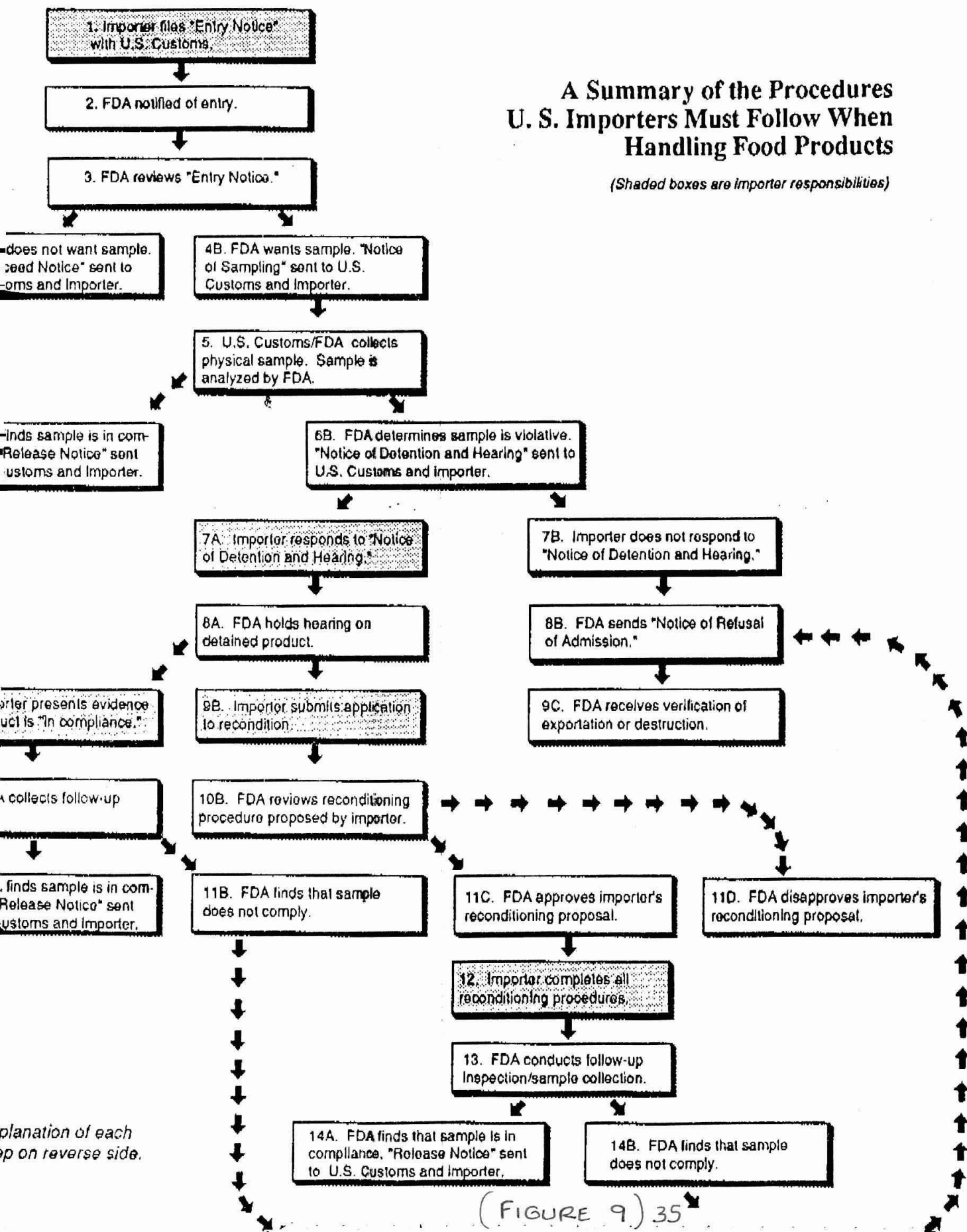
- * The importer should know the FDA importing procedures.

All of the above information was gathered from the Food and Drug Administration, Center for Food Safety and Applied Nutrition, Industry Activities Section, Washington, DC 20204 (see Figure 9, p.35 for the summary of the FDA import procedures).

Importing Foods into the United States

A Summary of the Procedures U. S. Importers Must Follow When Handling Food Products

(Shaded boxes are importer responsibilities)



Explanation of each step on reverse side.

CHAPTER 5
FELETTI AND THE U.S. MARKET

FELETTI'S REASONS FOR EXPORTING

There are many reasons why Feletti decided to export its products to the United States. Two years ago in Italy there was a big recession, therefore, a lot of people stopped buying products that were not essential for everyday living, especially products that were expensive like Feletti's chocolate. The demand for chocolate and candies dropped dramatically during these two years and companies had to find new ways of selling their products. Feletti decided to look for new markets outside Italy. The company started to export to Malta, Portugal and Spain. Fortunately, that was a good idea, and it helped Feletti survive during the recession. A year ago, things got better and Feletti decided to continue exploring new markets. They started to export to Canada, Australia, and America. So far Feletti is exporting its products to Los Angeles and to New York. After one year the outcomes are positive. Feletti increased its sales, reduced dependency from existing markets, and enhanced domestic competitiveness.

FELETTI'S PROBLEMS IN THE U.S. MARKET

As I said in Chapter 3 (Making the export decision), whenever a company decides to export its products, there are always going to be some disadvantages involved.

When Feletti decided to enter the U.S. market, the company had to implement some changes in order to make its products both, legal and suitable for the U.S. market.

The changes that Feletti had to make are the following:

1. Change the labels on the packaging -

Before Feletti had to export its products to the U.S., the labels were written only in the local language (Italian), even if the products were already being exported in Europe. This is because European regulations didn't require writing the labels in the

language of the country to which the company was exporting its products to.

Once Feletti decided to enter the U.S. market, the company had to write the labels in English. As you can see from the Figure 10 on p.40, the old labels at the top of the page were written in Italian only, the new labels, at the bottom of the page, are now written in five different languages (Italian, English, French, German, and Spanish). Naturally, in printing the new labels, the company had to pay a big price. However, I believe that it is a price that needs to be paid, in order to be successful in such a global world.

2. Change the packaging -

Because of the American consumer's way of thinking, Feletti had to change some parts of its packaging.

During the interview I had with Ms. Daniela Pagani, Feletti's marketing consultant, I learned a lot about the American consumers' way of thinking. Whenever American consumers purchase a product, said Ms. Pagani, they want to see the picture of the product on the packaging, in order to be sure in getting exactly what they wanted. Unfortunately all the Feletti's packaging was not set up in this way for various reasons. For example, the Italian consumers already know the product, therefore, for them it is not important to see what's inside the box. They already know what they are going to get, just from the name - a high quality product. As you can see from Figures 11 and 12, p.41, 42, Feletti actually changed its packaging in order to adapt to the American way of thinking. The American consumers can now see a picture of the product they are purchasing, on the packaging.

3. Changing the position of where the product's weight can be written on the packaging -

Another adjustment that Feletti had to make, was to change the position of where the weight of the product was supposed to be written. In Italy (actually in Europe), the weight can be written on the back of the packaging. In the States regulations specify that the weight has to be written on the front of the box.

Packaging was something that Feletti had to change radically in order to adapt its products to the U.S. regulations. It certainly cost a lot of money to the company, however, it also paid off. As I mentioned before, after the first year in the Los Angeles and New York markets, Feletti did a very good job in increasing its sales and profits.

Nowadays companies cannot think locally anymore, only globally. They need to make their products suitable for every market, and eventually make small changes in order to meet local needs.

A big advantage that Feletti will have if the company wants to enter the Boca Raton market is that the packaging is already in line with all the U.S. regulations. The company doesn't have to make anymore big changes, it probably just needs to adapt or change a few things in order to meet the needs of the Boca Raton consumers.

Cioccolato Amaro 100



Cioccolato Amaro 100 g

CIOCCOLATO AMARO

PESO NETTO 100 g



8 000698 001305

Da consumarsi preferibilmente entro il:

% minimo
: zucchero, pasta di cacao, burro di cacao.
nte: lecitina di soia, aromi.

cccolato, nell'imballaggio originale, conservato in
fresco ed asciutto, lontano dai cattivi odori, man-
trattistiche di freschezza e fragranza inalterate.

o da: CIOCCOLATO FELETTI SpA
scine, 32
SAINT MARTIN (VALLE D'AOSTA)

Cioccolato al Latte 100 g



Cioccolato al Latte 100 g

CIOCCOLATO AL LATTE

PESO NETTO 100 g



8 000698 001299

Da consumarsi preferibilmente entro il:

Cacao: 39% minimo

Ingredienti: zucchero, burro di cacao, latte intero in polve-
re, pasta di cacao.

Emulsionante: lecitina di soia, aromi naturali.

Questo cioccolato, nell'imballaggio originale, conservato in
ambiente fresco ed asciutto, lontano dai cattivi odori, man-
tiene le caratteristiche di freschezza e fragranza inalterate.

Prodotto da: CIOCCOLATO FELETTI SpA
Via Cascine, 32
PONT SAINT MARTIN (VALLE D'AOSTA)

Cioccolato Amaro 50 g



Cioccolato Amaro 50 g

CIOCCOLATO FONDENTE

PESO NETTO 50 g
NET WEIGHT 50 g
POIDS NET 50 g
NETTO GEWICHT 50 g
PESO NETO 50 g

8 000698 007246

Da consumarsi preferibilmente entro il:
Best before end: A consommer de préférence
avant le: Meesters hulten bis
Consumar preferentemente antes de:

ccio 51% minimo. Ingredienti: zucchero, pasta di cacao, burro di cacao.
Emulsionante: lecitina di soia, aromi. Conservare in luogo fresco e asciutto.

ARK CHOCOLATE: Cacao 51% min. - Ingredients: sugar, cocoa mass,
cocoa butter, emulsifier: soya lecithin, flavors. Store in a dry and cool place
made in Italy.

CHOCOLAT NOIR: Cacao 51% min. - Ingrédients: sucre, pâte de cacao,
beurre de cacao, soja lecitine (un émulsifiant), arômes. Conserver au frais et
à l'abri de l'humidité. Fabriqué en Italie.

CHOCOLATE BITTER: Cacao 51% min. - Zutaten: Zucker, Kakao-
masse, Kakao-Butter, Emulgator: Soja-Lecithin, Aromastoffe. Kühl und trocken lagern.
Italien hergestellt.

CHOCOLATE BITTER: Cacao 51% min. - Ingredients: azúcar, pasta de cacao,
antigua de cacao, emulgente: lecitina de soja, aromas. Conservar en lugar
fresco y seco. Producto de Italia.

Prodotto da: CIOCCOLATO FELETTI SpA - Via Cascine, 32
PONT SAINT MARTIN (VALLE D'AOSTA) - ITALIA

Cioccolato al Latte 50 g



Cioccolato al Latte 50 g

CIOCCOLATO AL LATTE

PESO NETTO 50 g
NET WEIGHT 50 g
POIDS NET 50 g
NETTO GEWICHT 50 g
PESO NETO 50 g

8 000698 007239

Da consumarsi preferibilmente entro il:
Best before end: A consommer de préférence
avant le: Meesters hulten bis
Consumar preferentemente antes de:

Cacao: 39% minimo

Ingredienti: zucchero, burro di cacao, latte intero in polve-
re, pasta di cacao. Emulsionante: lecitina di soia, aromi. Conservare in
luogo fresco e asciutto.

MILK CHOCOLATE: Cacao 39% min. - Ingredients: sugar, cocoa butter,
whole milk powder, cocoa mass, emulsifier: soya lecithin, flavors. Store in a
dry and cool place. Made in Italy.

CHOCOLAT AU LAIT: Cacao 39% min. - Ingrédients: sucre, beurre de
cacao, lait entier en poudre, pâte de cacao, lecitine de soja (un émulsifiant),
arômes. Conserver au frais et à l'abri de l'humidité. Fabriqué en Italie.

MILCHSCHOKOLADE: Kaka 39% mind. - Zutaten: Zucker, Kakao-
butter, Vollmilchpulver, Kakao-
masse, Emulgator: Soja-Lecithin, Aromastoffe. Kühl und trocken lagern.
In Italien hergestellt.

CHOCOLATE CON LATTE FINISIMO: Cacao 39% min. - Ingredients: azu-
car, manteca de cacao, leche entera en polvo, pasta de cacao, emulgente: so-
ja, aroma. Conservar en lugar fresco y seco. Producto de Italia.

Prodotto da: CIOCCOLATO FELETTI SpA - Via Cascine, 32
PONT SAINT MARTIN (VALLE D'AOSTA) - ITALIA



NOVITA'

Cod. 01715

Espositore Assortite - 20 pz. (5 x tipo) da g 100

Cioccolato al latte ripieno di:
Amaretto - Caffè - Gianduia - Pralinato



Cod. 01031 - Espositore Latte - g 50 - pz. 40
 Cod. 01001 - Espositore Latte - g 100 - pz. 30

Cod. 01032 - Espositore Fondente - g 50 - pz. 40
 Cod. 01002 - Espositore Fondente - g 100 - pz. 30

CHAPTER 6

IS BOCA RATON A LUCRATIVE MARKET FOR FELETTI?

QUESTIONNAIRE

The focus of this study is to try to introduce a new product from Italy to the Boca Raton market. I hope you will take a moment to fill out the questionnaire. Your opinions are very important for the study, and they will be strictly confidential.

1. How often do you buy chocolate?

- ☐ less than once per month
- ☐ once per month
- ☐ twice per month
- ☐ once per week
- ☐ more than once per week

2. Where do you usually buy chocolate?

- ☐ Publix
- ☐ Alberston
- ☐ Chocolate stores
- ☐ European stores

3. When you buy a piece of chocolate, what's that you consider most important?

- ☐ Price
- ☐ Quantity
- ☐ Taste
- ☐ Others

4. What kind of chocolate do you prefer?

☐ white chocolate

☐ milk chocolate

☐ dark chocolate

5. Why do you buy chocolate?

☐ for your family

☐ for yourself

☐ for a special occasion

6. Are you familiar with European chocolate?

☐ Yes

☐ No

7. What is the first European chocolate brand that comes to your mind?

8. Do you know that usually European chocolate is more expensive than American chocolate?

☐ Yes

☐ No

☐ I don't know

9. How much are you willing to pay for chocolate of net wt. 3.5 oz?

☐ less than \$1.00

☐ between \$3.00 and \$4.00

☐ between \$1.00 and \$2.00

☐ between \$4.00 and \$5.00

☐ between \$5.00 and \$6.00

☐ between \$6.00 and \$7.00

10. How old are you?

☐ 18-24 years

☐ 25-34 years

☐ 35-44 years

☐ 45-54 years

☐ 55-64 years

☐ 64 + years

11. What is your sex?

☐ Female

☐ Male

12. What is your average household income?

☐ Under \$30,000

☐ \$30,001-\$50,000

☐ \$50,001-\$70,000

☐ \$70,001-\$90,000

☐ \$90,001-\$100,000

☐ Over \$100,000

Thank you very much for your cooperation!

RESULTS

Of the 200 people asked to participate in the survey, 150 consented. 47% were male and 53% were female. 25% were between 25 and 34 years of age, 30% were between 35 and 44 years of age, and 55% were older than 55 years of age. 20% of the people who responded to the survey have average household income under \$30,000, 27% have average household income between \$30,001 and 50,000, 30% between \$50,001 and \$70,000, and 18% have average household income over \$100,000. From the survey there was an interesting result. The result showed that consumers buy chocolate for many different reasons. As you can see from the table Reasons why consumers buy chocolate p.T1, the leading cause why consumers buy chocolate is the "family" with 40%, follow by "special occasions" such as a birthday with 25%, and "yourself" with 15%. Another important result was about what consumers consider most important when they buy chocolate. From table titled Consumer's considerations p.T2, the most important thing consumers look when they buy chocolate is taste. In fact 50% of them responded taste to the question: what is you consider most important when you buy chocolate? 30% of them answered price, 15% answered quantity, and 5% answered other reasons.

From the table titled Most used places to buy chocolate p.T3, you can see that 50% of the people answered Publix, 20% prefer chocolate stores, another 20% like Alberston, and only 10% buy chocolate at European stores.

After comparing the prices of chocolate of NET WT. 3.5 OZ, interesting results were found. From table titled Prices of chocolate of NET WT. 3.5 OZ p.58, you can see that European chocolates are more expensive than American chocolates. For example Tobler chocolate, which is from France, is the most expensive compare to other

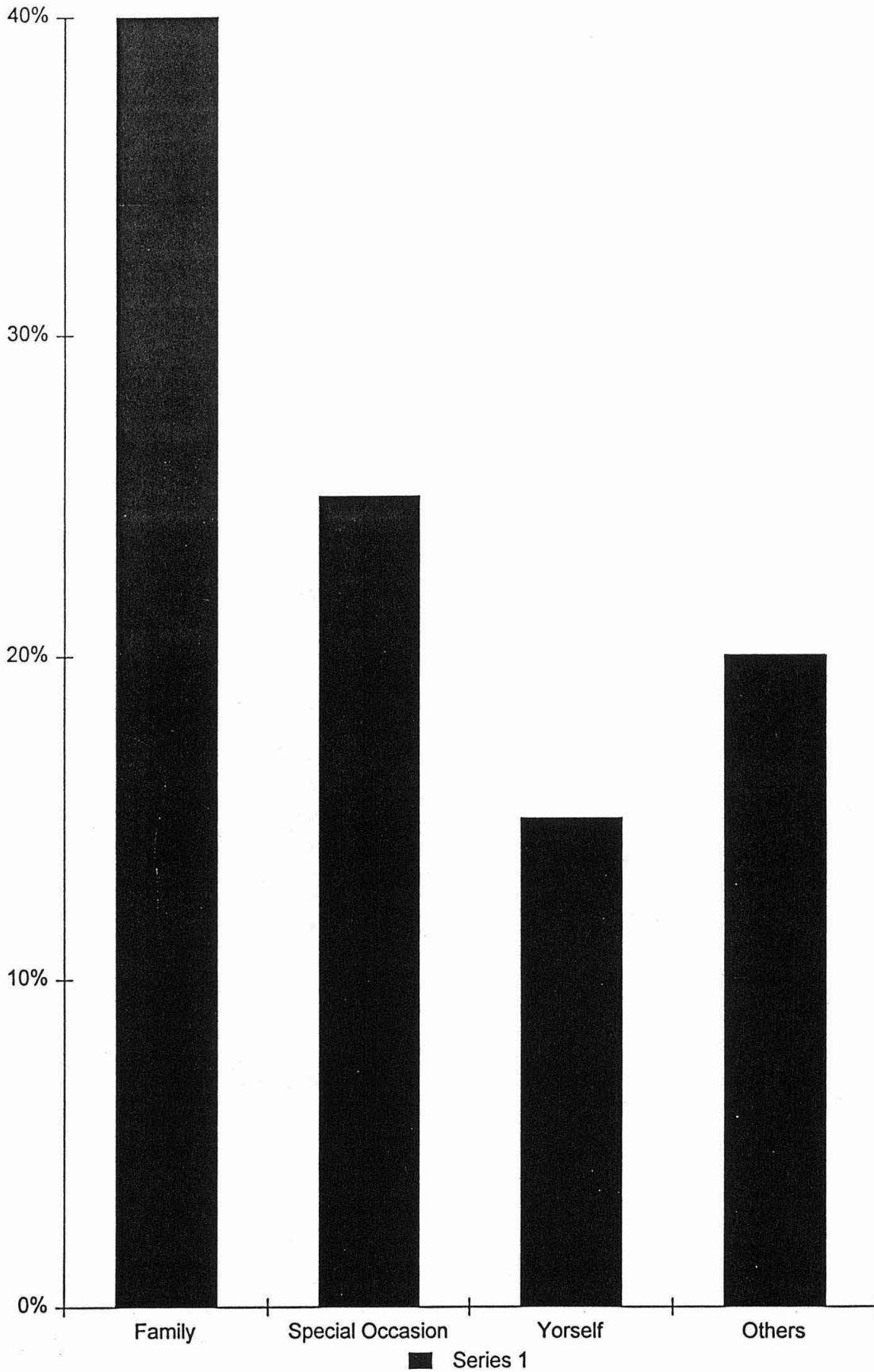
European or American chocolates. Tobler's price is \$1.80, Sarotti from Italy is \$1.59, Lindt from Switzerland is \$1.49, and the price of both Hershey and Nestle' from America is \$0.89.

Other interesting results are from the table titled Prices of boxes of NET WT. 8.5 OZ. p. 57. Once again you can see that boxes from Europe are more expensive than boxes from America. A box of Hoffmans chocolate, a brand from Europe, costs \$8.39, a box from Lindt from Switzerland costs \$7.99, while a box of Millionaire chocolate from America, costs only \$4.50. Also you can see that a box of Ferrero Moncheri, which is a European brand but the chocolate sells in the States is made in America, costs only \$3.99.

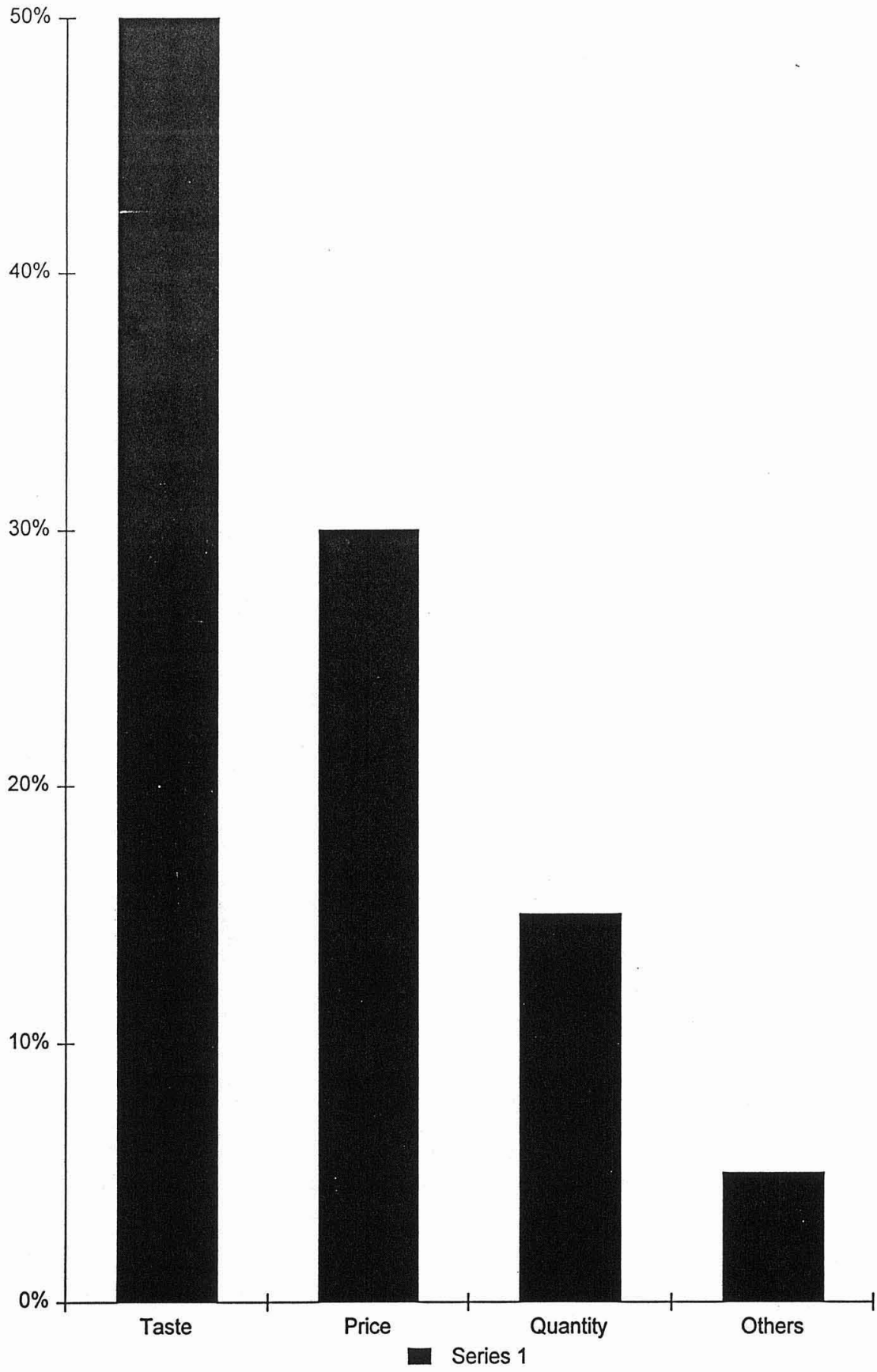
The last important result that needs to be mention is that 50% of the people contacted are willing to pay between \$1.00 and \$2.00 for a piece of chocolate of net wt. 3.5 oz. 25% are willing to pay less than \$1.00, and the other 25% are willing to pay between \$2.00 and \$3.00.

Also all of the stores visited, such as Publix, Alberston, carry European chocolates.

REASONS WHY CONSUMERS BUY CHOCOLATE



CONSUMER'S CONSIDERATIONS



MOST USED PLACES TO BUY CHOCOLATE



CHAPTER 7

MARKETING STRATEGY TO ENTER THE BOCA

RATON MARKET

INTERNATIONAL PRICING STRATEGY

Pricing is a particularly complex variable in overseas marketing strategies. The pricing decision ultimately affects an organization's ability to stay in the market (Subhash C. Jain, p.530). Pricing is an important decision in any business, be it domestic or international, as it directly affects revenue and thus profitability.

In making any pricing decision, the following factors should be considered: pricing objectives, cost, competition, the customer, and government regulations. Prices in overseas businesses are set by following either a cost approach or a market approach. The cost approach involves computing all relevant costs and adding a profit markup to determine the price. The market approach examines price setting from the customer's point of view. If the determined price that appears satisfactory to the potential customer, does not meet the company's profit goal, either the business is given up or the price is increased.

Export pricing is affected by three additional considerations: the price destination, the nature of the product, and the currency used in completing the transaction. Usually companies prepare separate price lists for different overseas markets. The price list contains a profit margin that makes it feasible to adjust the price following the local market conditions that include: competitive price, the government's export incentives in some countries, and the flexibility for competitive reduction of the price (Subhash C. Jain, p.560).

I believe that Feletti should consider using the market approach. The company should see what the competition's prices are and try to set its prices to more or less the same level. Feletti has to take into consideration the currency exchange rate. In the last month (November 1995), the exchange rate has been 1\$=1.650 lire. From the table,

"Prices for Boxes of net weight 8.5 oz." p.57, Lindt and Hoffmans's prices range from \$8 to \$9. As Lindt and Hoffman are Feletti's two primary competitors, I believe that Feletti should set the price of its boxes of net weight 8.5 oz. around \$8. From the Table,"Prices of chocolate of net wt. 3.5 oz." p.58, the prices set by Feletti's primary competitors - Nestle', Lindt, Sarotti and Tobler range from \$1 to \$1.80. Once again I think that Feletti should consider setting its prices in that range.

These prices that I have just given are only suggestion prices. The company needs to make sure that from those prices all the costs (transportation costs, taxes, customs duties, etc.) are covered and that Feletti can still be profitable.

INTERNATIONAL CHANNELS OF DISTRIBUTION

Once opportunities in other countries have been determined, arrangements must be made to get the product to the market. Essentially, a company has two options concerning foreign distribution: establishing company-owned channels or dealing with different types of intermediaries. Initially, most companies use an existing system of distribution rather than attempting to build their own channels.

Different types of intermediaries are active in the field of international distribution. They can be categorized as either domestic agents and merchant intermediaries who provide channels of indirect distribution, or as foreign agents and merchant intermediaries who make it feasible to distribute directly. An essential difference between agents and merchant intermediaries is that agents do not take title of the goods, therefore, they operate only on behalf of their principals. The merchant intermediaries take title of the goods and therefore, conduct the necessary steps on their own.

An international marketer should select appropriate channels and make them work. The selection process includes the establishment of channel objectives, feasible alternatives, and the choice of appropriate channels.

Once the distribution channel is determined, reliable foreign distributors must be found. The actual selection of an intermediary is based on criteria such as the candidate's financial strength, their connections, the number and kind of other companies they represent, and the quality of their local personnel, facilities, and equipment.

Overall, independent intermediaries play a crucial role in international marketing. Their knowledge of the market and of the relevant business customs and practices adds to the strength of the manufacturer-exporter. They are particularly important for smaller companies.

At the moment, Feletti has two major independent distributors, one in New York, and the other one in Los Angeles. Usually Feletti's managers meet with their distributors at the major trade shows. During the trade show, distributors report to the managers on how Feletti's products are doing. I believe that the use of independent intermediaries by Feletti to enter the New York and the Los Angeles markets, was a very smart choice.

In order to be successful in the Boca Raton market, I think that Feletti has to choose very good independent intermediaries. They need to know the Boca Raton market very well and they need to have a quality local personnel. In order to find these type of distributors, Feletti needs to attend trade shows in South Florida.

Some of the trade shows that Feletti should attend are:

* January 16-19. Miami Gift Show, Miami Mart-Radisson Center, Miami, FL.; [REDACTED]

[REDACTED]

- * January 23-25. Confections South, Twin Towers Hotel & Convention Center, Orlando, FL.; [REDACTED]
- * January 26-28. Food Pack of the Americans Exposition & Conference, Coconut Grove Convention Center, Miami, FL.; [REDACTED]
- * February 4-6. National Food Distributors Association Midwinter Tabletop Show, Fort Lauderdale, FL.; [REDACTED]

INTERNATIONAL ADVERTISING

Advertising is an American institution born out of the U.S. economic progress. However, the rest of the world is catching up fast. World advertising expenditures, other than those of the United States, are likely to rise from \$130 billion in 1988 and \$180 billion in 1990 to \$300 billion in the year 2000 (Subhash C. Jain, p.657).

An important decision for international advertisers to make, is whether the advertising campaign should be standardized worldwide or localized. Standard advertising in marketing chocolates, has advantages in that a successful campaign in one country is likely to be effective in another nation as well. Furthermore, standard advertising is economical. On the other hand, localized advertising recognizes cultural differences among nations. In the final analysis, the choice between standard and local advertising should be based on environmental considerations such as levels of education, experience and competence of personnel in the foreign agency, degree of nationalism and rate of economic growth in the country, and the eating patterns and customs of the country (Subhash C. Jain, p.657). If the overall environmental differences are significant, then advertising should be localized. Besides the environment, other criteria to be weighed before using a standardized campaign

overseas are: advertising objectives relative to the host country, target market, product characteristics, media availability, and the cost-benefit relationship.

Countries impose different regulations on advertising. While the thrust of regulations varies from nation to nation, the essential focus is on certain classes of products-services, mail-order distribution, ads. targeted towards children, comparative advertising and the use of words in the foreign language. For example, while comparative advertising is prohibited in Italy, in the United States it seems to be one of the most used and effective forms of advertising.

In the case of Feletti, the Boca Raton market is going to be a totally new market. The company needs to use a lot of advertising, especially at the beginning, in order to make Boca Raton consumers aware of Feletti's products. I don't think that Feletti should advertise on television because not only is it too expensive, but it does not reach a selective audience. I believe Feletti should use selective advertising. This means that the company should promote its products in special newspapers or magazines. Magazines that deal with chocolates or gourmet in general which Feletti should take into consideration, are the following:

- * The Gourmet Retailer (monthly)
- * Fine Cooking (monthly)
- * Chocolatier (monthly)

Another way that Feletti should promote its products is to give out samples in the supermarkets. In this way consumers will be able to try the products and therefore, become familiar with the brand name. Feletti should also give out some coupons maybe in the same area where the consumer gets to try the sample. This form of advertising should go on for a few months and they should follow consumer responses. If the

ponse is quite positive, the company should stop giving out samples and continue advertising in magazines. This type of advertising will cost the company some money, but it will be worth it in the long run.

CONCLUSION

In making a successful export decision there are many factors that need to be considered. When companies want to export their products, they need to understand the economies of the two countries, the domestic one and the country to which the products will be exported to. In Chapter 1, I analyzed the Italian and U.S. economies and I came to the conclusion that the situation is favorable for exporting, therefore Feletti should take advantage of it and begin to seriously think about exporting its products to the Boca Raton market.

In making any export decision, companies need to know all the advantages and disadvantages involved. In Chapter 3, after taking into account all the pros and cons of exporting Feletti's products to the Boca Raton market, I believe that the company should decide to export its products because the long-term outcomes will offset the disadvantages involved initially.

From the results gathered from the questionnaire, interviews, and observational research, it's possible to make some other interesting conclusions. From the questionnaire randomly distributed to 200 people, it's possible to conclude that a lot of people in Boca Raton are willing to spend some extra money in order to buy tasty chocolates. This is very good news for Feletti because the company produces a high quality chocolate, very tasty, but at a higher price. Furthermore, in Boca Raton 40% of the people contacted buy chocolate for the family, they don't wait for special occasions.

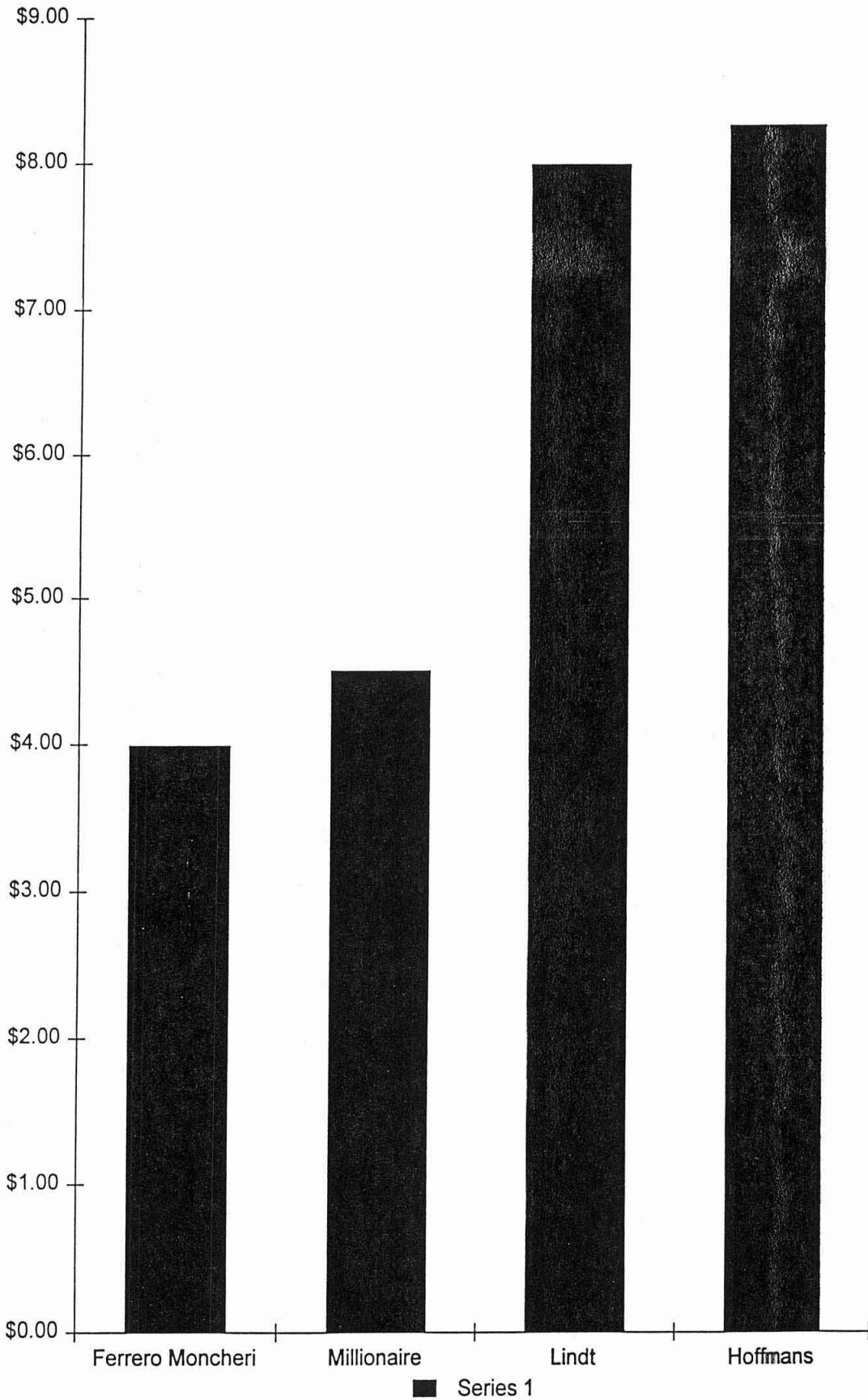
This means that the demand for chocolate is very high throughout the year.

Another interesting conclusion gathered from many interviews is that people in Boca Raton are familiar with European chocolates. They know that the European chocolate is more expensive than the American, not only because it is imported but also because some European chocolates are made from high quality ingredients.

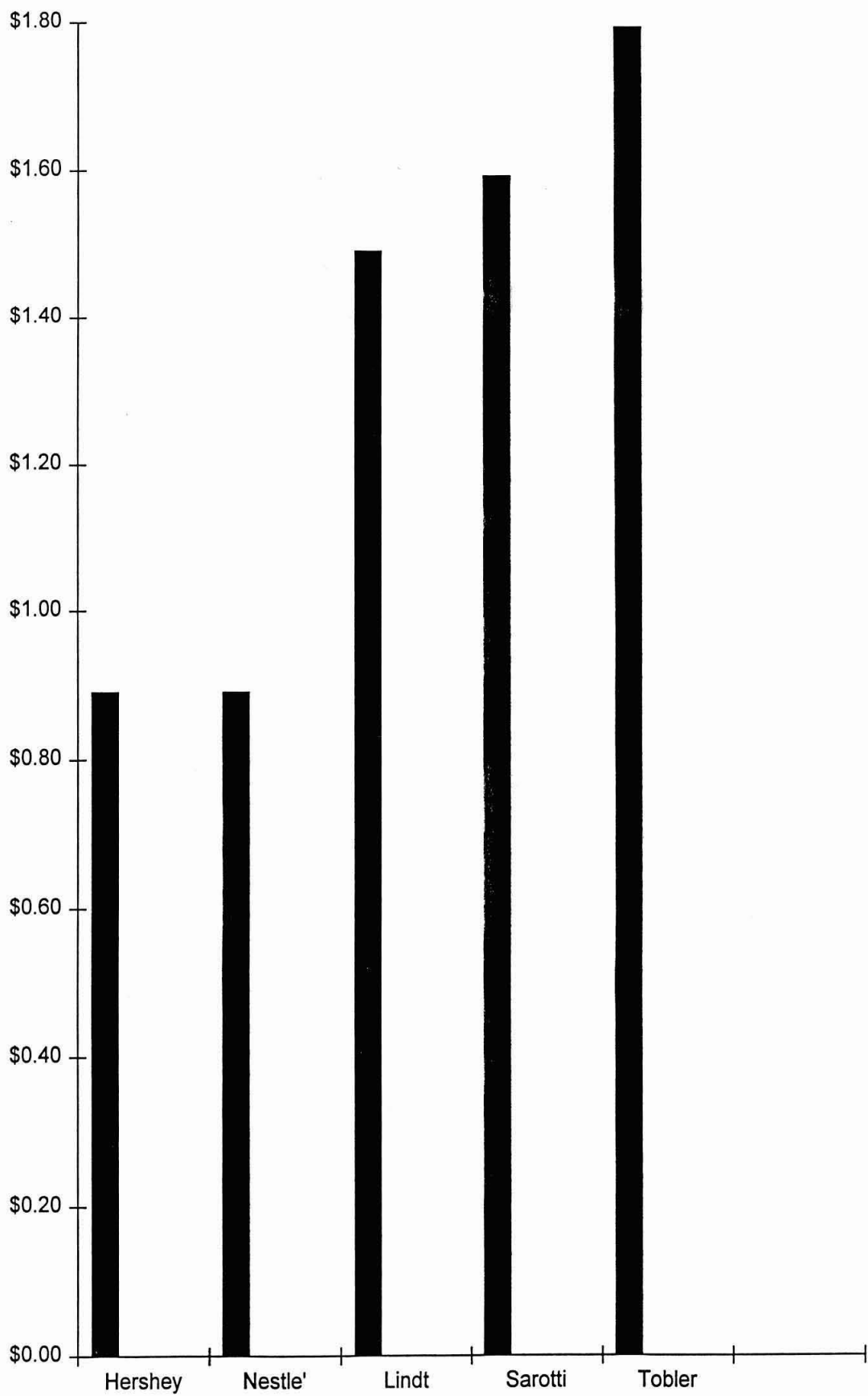
I believe the Italian chocolate company Feletti, can definitely enter the Boca Raton market and be successful. In Chapter 7, I developed an international marketing strategy (price, channels of distribution, and advertising) for Feletti. To introduce a new product to a new market, samples are very important and have a positive impact on immediate sales of the product. In the beginning, Feletti should give away samples in stores such as Publix, Alberstons, or chocolate stores. This will help the American consumer become familiar with Feletti's products.

In conclusion I believe that the Boca Raton market can be a very lucrative market for Feletti. The company should take into consideration all the information gathered during this study and seriously think about exporting its products. I strongly believe that the company would be very successful. One more thing that every export transition needs to have for success is... a little bit of luck, so BUONA FORTUNA FELETTI (GOOD LUCK FELETTI).

PRICES OF BOXES OF NET. WT.8.5 OZ



PRICES OF CHOCOLATE OF NET WT 3.5 OZ



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